



## **2010 Revalue Report – Office Specialty – 280**

**King County Department of Assessments**



**King County**

## **Executive Summary Report**

**Appraisal Date 1/01/10 - 2010 Assessment Year – 2011 Tax Roll Year**

**Specialty Name: Major Office Buildings**

**Physical Inspection: May/June/July 2010**

### **Sales - Improved Analysis Summary:**

Number of Sales: **3**

Range of Sale Dates: 2/14/08 to 11/09/09

A ratio study was not included in this report due to the small number of sales relative to the size of the specialty population. The Parcel Summary Data does not reflect any statistical measure associated with IAAO guidelines.

### **Total Population – Parcel Summary Data:**

	<b>Land</b>	<b>Improvements</b>	<b>Total</b>
<b>2009 Value</b>	\$2,574,903,789	\$11,316,641,495	\$13,891,545,284
<b>2010 Value</b>	\$2,574,201,500	\$8,939,795,400	\$11,513,996,900
<b>Percent Change</b>	- 0.03%	- 21%	-17.12%

Number of Improved Parcels in the Ratio Study Population: 263

### **Conclusion and Recommendation:**

With limited market sales less consideration is given to the Sales Comparison Approach in the 2010 revalue. The Income Approach is used in the final reconciliation of value because it allows greater equalization and uniformity of values for the various stratifications of office buildings in the different submarkets. In addition, market income data is available for the analysis. The current recession phase of the real estate value cycle has generally resulted in higher vacancies, negative rent growth, higher overall capitalization rates, and lower total values as of January 1<sup>st</sup>, 2010 as indicated in the above table.

The values recommended in this report reflect current office market parameters as of the valuation date of 1/01/2010 therefore it is recommended that they should be posted for the 2010 Assessment Year.

## **Analysis Process**

***Effective date of Appraisal:*** January 1, 2010

***Date of Appraisal Report:*** June 30, 2010

### ***Highest and Best Use Analysis***

**As if vacant:** Market analysis of this area, together with current zoning and current anticipated use patterns, indicate the highest and best use of the majority of the appraised parcels as commercial use. Any opinion not consistent with this is specifically noted in the records and considered in the valuation of the specific parcel

**As if improved:** Based on neighborhood trends, both demographic and current development patterns, the existing buildings represent the highest and best use of most sites. The existing use will continue until land value, in its highest and best use, exceeds the sum of value of the entire property in its existing use and the cost to remove the improvements. The current improvements do add value to the property in most cases, and are therefore the highest and best use of the property as improved. In those properties where the property is not at its highest and best use, a token value of \$1,000 is assigned to the improvements and the property is returned to the geographical appraiser.

**Standards and Measurement of Data Accuracy:** Each sale was verified with the buyer, seller, real estate agent or tenant when possible. Current data was verified and corrected when necessary by field inspection, review of plans, marketing information, and rent rolls when available.

### ***Special Assumptions, Departures and Limiting Conditions***

All three approaches to value were considered in this analysis.

The following Departmental guidelines were considered and adhered to:

- No market trends (market condition adjustments, time adjustments) were applied to the sales prices of the few sales available in the current office market cycle. *Models were unable to be developed based on the market approach because of the lack of comparable market sales.*
- This report intends to meet the requirements of the Uniform Standards of Professional Appraisal Practice, Standard 6.

## **Identification of the Area**

### **Name or Designation: Specialty Area 280: Major Office Buildings**

This report contains data pertinent to the revalue of major office buildings (100,000 square feet of net rentable area and above). Net rentable area as utilized here is typically described as gross building area less vertical penetrations. The office specialty properties are found throughout King County, with significant concentrations located in Downtown Seattle and Downtown Bellevue. Additionally, larger suburban office buildings are found in many jurisdictions of the County. All major office specialty properties were revalued this year. Included in the addendum of this report is a list of the parcels physically inspected for the 2010 assessment year.

### **Boundaries:**

All of King County

### **Maps:**

A general map of the area is included in this report. More detailed Assessor's maps are located on the 7th floor of the King County Administration Building.

### **Area Description:**

For purposes of the 2010 revaluation of the office-building specialty, the population has been segmented into six regions. These regions are generally described by their geographic location with the exception of one, which is described by its primary use. The following is a brief description of each of these market segments.

#### North

This region represents a small portion of the total specialty. The largest concentrations of buildings in this segment are located in the Northgate and University Districts.

In September 2006 the Safeco properties located in the U-District were sold to the University of Washington. UW moved into 511,000 square feet of office in the former Safeco Tower and three adjacent four-story buildings in early 2008. Recent new construction includes the Lake View Building in the Quadrant Lake Union Center in Fremont. The 102,000 square foot building was completed in the 4<sup>th</sup> Qtr 2008 and was approximately 75% leased as of the 1/01/2010 valuation date.

#### Seattle Central Business District (Seattle CBD & Downtown Submarkets)

The largest portion of the office specialty is comprised of properties located in this region. Approximately 45% of the office properties are located in the Downtown Seattle submarkets. The Seattle CBD geographic boundaries are loosely described for purposes of

this analysis as extending from Lower Queen Anne on the north to Safeco Field on the south, from Puget Sound on the west to Interstate 5 on the east.

In South Lake Union, construction to shell was completed on the 5-story, 183,000 square foot, 1100 Eastlake Building in late 2008. This office/biotech building remains vacant and is currently available for lease or sale. Construction was also completed in late 2009 on the 2201 Westlake project which includes a 12-story office tower with 300,000 square feet of office and a 19-story residential tower. As of the 1<sup>st</sup> quarter 2010 the office tower condominium was 100% leased to the global health nonprofit PATH and Amazon.com. 500 Yale was completed to shell in late 2009. The 5-story, 70,000 square foot office building is available for lease. It is not in the office specialty (280) because of its smaller size.

On the waterfront, construction was completed in 2008 on the 333 Elliott Building, a 5-story, 132,000 square foot office building that is leased to F-5 Networks. Also completed to shell in late 2009 were the 4-story 635 Elliott (North Bldg.) and 645 Elliott (South Bldg.) offices with a total rentable area of 331,000 square feet. In May 2010, the Seattle biotech company Dendron signed a letter of intent to lease the entire 635 Elliott Building as administrative office.

Recent construction of other speculative office projects in the downtown submarkets includes the 14-story, 818 Stewart Building with 235,000 square feet. It was completed in 2008 and was 60% leased at year-end 2009. The 9-story, 202,000 square foot Seventh & Madison Building located on the east side of 1-5 was delivered in the first half of 2009. It is currently 100% vacant and available for lease or sale. Completed to shell in the 2<sup>nd</sup> half of 2009 was the 28-story, 483,000 square foot West Eighth Building, the 36-story, 650,000 square foot 1918 Eighth Office Tower and the 17-story, 263,000 square foot Fifth & Yesler Building. These office buildings were not pre-leased and had only minor lease-up as of year-end 2009. As of May 2010, West 8<sup>th</sup> is 30% leased, 1918 Eighth is 20% leased, and Fifth & Yesler is 100% according to officespace.com.

In Pioneer Square the 505 First Avenue Building was completed to shell in the first quarter of 2010. This 7-story, 285,000 square foot office was initially an addition to 83 King Street for Starbucks corporate expansion; however it is now available for lease. It is the last of the speculative office projects to come online. Since completion a tenant has leased 46,000 square feet.

Dedicated office projects under construction include the Gates Foundation site in the Lower Queen Anne neighborhood and the Amazon.com development in South Lake Union. Phase I of the Gates Foundation Headquarters campus currently includes two midrise office buildings with 590,135 square feet. They are scheduled for completion in the 4<sup>th</sup> quarter of 2010. The Amazon.com Headquarters Campus includes five phases and eleven buildings with a total size of 1,600,000 square feet. Three of the buildings are scheduled for completion in 2010.

### Bellevue Central Business District (Bellevue CBD)

This region, while comprised of a smaller number of properties, is considered to be the second most significant area of the office specialty. It is comprised of mid and high-rise office buildings in the Bellevue CBD as well as two Mercer Island mid-rise office buildings.

In 2007 the 27-story Lincoln Square Office Tower was completed. The 539,000 square foot property is occupied by Microsoft and Eddie Bauer. Three other preleased office projects have recently been completed in the Bellevue CBD. They include the 12-story and 21-story Bravern I and II Office Towers having 248,000 and 497,000 square feet (this project has a large retail podium with Marcus Niemen as the anchor tenant). The Bravern office buildings were pre-leased to Microsoft and were completed in mid-2009. Tower 333 (Expedia Tower) was completed in the second half of 2008. The 18-story, 410,000 square foot building had been pre-leased to Expedia.com and several smaller tenants. City Center Plaza with 26-stories and 572,000 square feet was also completed in 2008. Microsoft has preleased the entire office space. In the first quarter of 2008 demolition and construction began on the third building of the Summit complex, however with the downturn of the economy, Summit III, a 15-story building with 330,800 square feet, was capped at street level when the underground parking structure was completed in mid 2009.

### Suburban Eastside

This region includes properties outside of the Bellevue CBD, on the East Side of Lake Washington. This analysis considers properties from the I-90 corridor, Kirkland, Redmond, Bothell, Issaquah and suburban Bellevue to comprise the Suburban Eastside. At present, while this region has a large geographic expanse, it has fewer large office buildings.

In the 1-90 sub-market, the three phases of the Advanta Office Commons @ 1-90 were completed in 2008. The three, 7-story buildings with a total of 575,000 square foot office and a parking garage structure were pre-leased to Microsoft. Also in the 1-90 corridor, the Two Newport Building is under construction in the Newport Corporate Center. The six-story, 165,000 square foot building is leased to T-Mobile and is scheduled for completion in the second half of 2010.

In the Bothell sub-market, construction of the 3-story, 105,000 square foot Schnitzer North Creek –Building A was completed to shell in early 2009. It was fully leased to a single tenant in the 4<sup>th</sup> quarter 2009.

### South County

Properties located within the South Seattle, Renton, Tukwila, Kent, SeaTac, Auburn and Federal Way areas generally describe this region. Weyerhaeuser is the predominant property owner in the Federal Way area. There hasn't been any recent new construction of larger office buildings in these sub-markets. However, the Federal Aviation

Administration will be expanding its regional headquarters and is currently requesting proposals for a 500,000 square foot, LEED Gold office building that will be located in Renton, Kent, Des Moines, Sea Tac, or Tukwila. The FAA plans to move into the new space in late 2014.

#### Medical Office Buildings

These buildings are analyzed independent of the remainder of the specialty as medical/dental office buildings. They typically have a different construction cost, and income/expense profile. Medical office buildings require more intensive plumbing, extra power for medical equipment, higher fresh-air filtration, zoned heating, and more parking than conventional offices. High occupancy rates, long leases, low tenant turnover, and the fact that healthcare keeps expanding regardless of the economic cycle has resulted in an office market segment that has been attractive to institutional buyers. At the same time hospitals and health systems have found it useful to sell non-core assets such as medical office buildings to get capital for new services, technology, and other uses.

The properties in this category are generally located on First Hill and the University District, with one medical office building in Downtown Seattle and one in Bellevue. Renovation of James Tower portion of the Swedish/Providence Hospital was completed in 2006. The greater portion of this property is medical office while a smaller portion is lab space. It was added to the office specialty in 2006. It has a rentable area of 307,500 square feet.

### **Leasing Class Descriptions**

A description of the leasing classes is provided. In the market approach and income approach analysis the office properties are grouped into the above market areas and then stratified into the appropriate leasing class. The leasing class may differ from the building class. For example, a reinforced concrete, midrise office building will be classified as Class B construction but may be considered in the market as Class A leased space.

#### Class A:

Class A properties are the most prestigious buildings competing for premier office users with above average rents for the area. Buildings have high quality standard finishes, state-of-art building systems, and exceptional accessibility and a definitive market presence.

#### Class B:

Class B properties are buildings competing for a wide range of office users with average rents for the area. Building finishes are fair to good for the area and systems are adequate, and the buildings do not compete with Class A buildings.

#### Class C:

Class C properties are buildings competing for tenants requiring functional space at below average rents for the area. The buildings typically have designs and finishes that are dated.

In the valuation analysis Class A buildings will be further stratified into A+ /top tier and average Class A properties. Class B buildings are stratified into renovated/historic, average, and B- properties needing capital expenditures. The office specialty predominately consists of Class A and B properties.

### **Puget Sound Economic Conditions**

The Greater Seattle area office employment rate had outperformed the national average with a cumulative growth of 15.10% over the five years previous to mid-2008. As late as September 2008, the Seattle Metropolitan area had the fourth largest gain in employment (up 33,900 compared to a year earlier) of the 310 metropolitan areas surveyed by the Bureau of Labor Statistics of the U.S. Department of Labor. That positive employment picture changed in the 2<sup>nd</sup> half of 2008 when the global recession hit the Seattle metropolitan area.

Since mid-2008 the regional economy of Puget Sound has experienced the economic downturn that has affected the rest of the nation and the world. Unemployment rates have increased, housing values have dropped, consumer spending has decreased, and international trade declined in 2008 and 2009. There have been substantial cuts in government spending, and losses in construction, real estate and finance jobs. This has been accentuated by JP Morgan Chase's laying off of 3,400 former Washington Mutual employees, and belt-tightening and cutbacks by many of Washington's top businesses such as Starbucks, Weyerhaeuser, Nordstrom, and Alaska Air. Microsoft and Boeing, the two largest regional employers, reduced new hiring and cut employees due to the weak global economy in 2008 and much of 2009. The pull back of these businesses has had a multiplier affect that further impacts the regional economy. Between August 2008 and August 2009 Seattle's unemployment rate increased 390 basis points reaching 8.6%.

Despite the economic turmoil many economists predict a turnaround will begin in mid-2010. The Puget Sound Economic Forecaster predicts an overall decline in employment of 1.1% in 2010 or approximately 20,000 jobs. This employment drop-off however would be substantially less than occurred in 2008 and 2009.<sup>1</sup> Marcus & Millichap in their 2010 Market Forecast for Seattle predicts that local payrolls will actually expand in 2010 by 1.6% or 26,400 workers while office-using sectors will increase by 8,500 positions, a 2.1% gain.<sup>2</sup> The Puget Sound region was impacted by the current recession later than much of the nation, however as of May 2010 Arun Raha Executive Director of the WA Economic and Revenue Forecast Council states that the region and state may lead the

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<sup>1</sup> Grubb & Ellis, Office Trends Report – First Quarter 2010 Seattle, WA – Seattle Economic Overview

<sup>2</sup> Marcus & Millichap, 2010 Annual Report – Market Forecast – Seattle, pg 50



nation in recovery due to the stable aerospace and software publishing industries that are again hiring high wage employees, and growing exports particularly to east Asia.<sup>3</sup>

The greater Seattle office market as of the January 1<sup>st</sup> 2010 valuation date saw a shift from the contraction phase of 2008 that followed the market peak to a recession phase characterized by very low demand and high levels of supply with new speculative office buildings started during the expansion phase and added to the office inventory in 2009. High vacancy, negative rental growth, and higher overall capitalization rates describe the office submarkets in King County. It has become a tenants market with substantially lower effective lease rates as current office users renew or renegotiate leases, or move to higher quality office space often at lower rates with rent abatements and high tenant improvement allowances. While the nation and region may have turned the corner on the recession the office market recovery typically lags behind the economic recovery.

According to Cushman & Wakefield's Puget Sound Statistical Summary for year-end 2009 office overall vacancy for the entire Puget Sound Region was 20.0% at the end of 2009 up from 13.1% at the end of 2008 (this includes class A, B, and C buildings in all sub-markets). The overall absorption for the year was a negative 3,034,192 square feet down from a positive 165,417 square feet the previous year. Class A office space had a negative absorption of 1,696,924 square feet down from a positive absorption of 568,829 square feet the previous year.

The only major office submarket in King County with positive Class A absorption was Bellevue CBD with 429,398 square feet leased (resulting from Microsoft occupying City Center Plaza and the Bravern Office Towers). Eastside Suburban had a negative absorption of 281,982 square feet with the 1-90 Corridor giving back the most space.

Class A office in Downtown Seattle submarkets had a negative absorption of 1,435,594 square feet as compared to a negative year-end 2008 absorption of 30,577 square feet.

In the office specialty most of the Class B buildings are located in the Seattle CBD and downtown sub-markets. These submarkets had a negative absorption of 572,066 square feet in 2009, an increase from the negative 186,025 square feet one year earlier.<sup>4</sup>

In 2009 the Seattle office market was in a cyclical period of decline due to the current strong recession and the supply-and-demand dynamics of having close to 2.4 million square feet of speculative office space coming on line with minimal pre-leasing, at the same time that the former Washington Mutual leased space in multiple office buildings and most of the occupied space in the WAMU Center was returned to the market. The first half of 2009 saw very little leasing activity, however by the 4<sup>th</sup> quarter of 2009 there was sustained leasing activity, indicating that tenants may be viewing effective rental rates as

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<sup>3</sup> West Puget Sound Chapter of IAAO Spring Seminar – Washington Economic Trends, Arun Raha Executive Director of the WA Economic and Revenue Forecast Council, May 13, 2010

<sup>4</sup> Cushman & Wakefield – Puget Sound Office Summary – Fourth Quarter 2009 Market Statistics

being at or near the bottom and deciding to lock in these rates in long-term leases. Most of the leasing involved existing tenants resulting in little additional absorption of office space.

The Bellevue CBD and the Eastside Suburban submarkets also exhibited the effects of the weak economy in 2009 with higher vacancy, lower effective lease rates, and higher sublease space. Unlike Seattle, Bellevue was not faced with the high level of speculative office space entering the market. Three of the four new office buildings in the Bellevue CBD were leased by Microsoft. While lease rates have fallen they generally remain higher in comparison to Seattle.

The South King County office market continues to struggle with overall vacancy increasing only slightly from 13.2% to 14.4% over the year. Business cutbacks have resulted in tenants downsizing when renewing leases. Lower lease rates and concessions are the result of landlords competing in a market with little new demand.<sup>5</sup> This office market has had the most difficulty reaching stabilized occupancy in recent years yet is in better shape now than after the last economic downturn in 2001.

The Medical Office Building segment of the office market has shown much greater resistance to the economic downturn than the office market in general. Healthcare continues to be the strongest sector of the economy. High expenditures on health care and the shift of medical care from inpatient to outpatient has resulted in more visits to physicians' offices and more demand for medical office space. Positive job growth in this sector has continued throughout the recession. Changes in healthcare technology, the push for online medical records, the recent passage of Healthcare Reform, and the population growth in the 55-plus age group will result in very strong demand for existing and additional medical office space in the coming years. According to Marcus & Millichap Medical Office Research Report – 2010 Outlook, the West/Pacific Northwest region had vacancy of 9.5 % at the end of 2009. However Portland and Puget Sound continued to outperform other West Coast markets, with vacancy between the two areas averaging 6.5%. Region wide the median price was \$272 per square foot, while capitalization rates were in the mid 7 % range.<sup>6</sup>

Despite the current distress in the Seattle-Bellevue/Eastside office market many observers believe that the Seattle metropolitan area retains many of the advantages that attracted investors during the recent expansion cycle of the market in 2006, and 2007. The Emerging Trends in Real Estate 2009 Survey Report by the Urban Land Institute and PricewaterhouseCoopers ranks Seattle among the nation's top ten commercial real-estate investment markets at eighth (a drop from number one in 2008). The attributes that investors continue to favor such as global gateway coastal markets, cities and urbanizing infill suburbs with 24-hour attributes, brainpower centers with universities and high-paying jobs, and markets where geographic constraints help control overbuilding all describe the

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<sup>5</sup> GVA Kidder Mathews, Seattle Real Estate Market Review Year End 2009

<sup>6</sup> Marcus & Millichap, Medical Office Research Report – 2010 Outlook

greater Seattle area.<sup>7</sup> Also, Seattle and the Puget Sound region is a major international trading hub with one in three jobs tied to the international economy. The end of new office development together with the strength of the area's diverse economy may set the stage for rising rents after 2010. Co-Star is forecasting that by 2014 the average asking rents in Seattle will increase by more than 35% from a low expected to occur during the 3<sup>rd</sup> quarter of 2010. It predicts that over the next four years Seattle will have the highest percentage increase in office rents of any of the top metropolitan areas in the country.<sup>8</sup>

### ***Preliminary Ratio Analysis***

There were insufficient sales in 2008 and 2009 to include before and after ratio studies.

### ***Scope of Data***

#### **Land Value Data:**

The geographic appraiser in the area in which the specialty office property is located is responsible for the land value used by the office specialty appraiser. See appropriate area reports for land valuation discussion.

#### **Improved Parcel Total Value Data:**

Sales information is obtained from excise tax affidavits and reviewed initially by the Accounting Division, Sales Identification Section. Information is analyzed and investigated by the appraiser in the process of revaluation. All sales are verified, if possible, by contacting either the purchaser or seller, or contacting the real estate broker, and reviewing sale transaction data from online subscription sources. Characteristic data is verified for all sales, if possible. If necessary a site inspection is made. Sales are listed in the "Sales Used" and "Sales Not Used" sections of this report.

#### **Improved Parcel Total Values:**

#### **Sales comparison approach model description**

The office building sales in King County utilized in the analysis for the current revalue were segmented into six market segments. The segmentation is based primarily on the geographic boundaries previously described. In the event a segment lacked adequate sales

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<sup>7</sup> Emerging Trends in Real Estate 2010, Urban Land Institute & PricewaterhouseCoopers

<sup>8</sup> Puget Sound Business Journal, "Now's the time for tenants to lock in better terms" Richard Wieneke and Tim Giacometti, March 19-25, 2010

representation, similarities in other segments were considered and judgment was applied in determining market comparability.

The collapse of the capital markets, the economic downturn and the resulting downward pressure on office fundamentals, and the continued gap between buyers and sellers has resulted in very few institutional grade office sales in 2009. This is a continuation of the pattern in 2008 where office sales were down 95% from the market peak in 2007.

In the office specialty (buildings with over 100,000 rentable square feet) in 2008 there were no sales in the Seattle sub-markets, there was only one sale Pacific Plaza in the Bellevue CBD, and only one sale East Campus Corporate Park VI in the South County sub-markets. In 2008 there was a pricing gap between sellers and buyers with some transactions failing after the financial markets froze in the second half of the year. These properties were then withdrawn from the market. In 2009 there continued to be little clarity in the pricing struggle between buyers and sellers.

The second half of 2009 saw the only two transactions in the office specialty. Northwestern Mutual Life the parent company of Russell Investments purchased the former WaMu headquarters (a 2006 Class A+, 900,000 square foot office tower and below-grade parking structure) in the Seattle CBD from Chase for a price of \$115,000,000 or less than \$130 per rentable square foot. It sold in September 2009. From a fully occupied single-tenant building Chase would now lease back approximately 17% of the space or three floors. The buyer purchased the property for the approximate cost of building a Class A office building for the 200,000 to 250,000 square feet of space that Russell Investments required. This sale is considered more of an anomaly and not a reliable indicator of value of comparable properties. Market value requires the seller to be typically motivated, that the price is not affected by undue stimulus, and that there is adequate time exposure/marketing. This transaction may more closely resemble a disposition sale.<sup>9</sup> In this case Chase had acquired the tower and thousands of WaMu bank branches for \$1.9 billion after the FDIC takeover of Washington Mutual. Chase wanted the bank branches but not the tower. It had virtually no basis in the office building and did not want to spend capital converting it to a multi-tenant building. Chase found a high credit, well-regarded northwest company and a cash buyer in Russell Investments/Northwestern Mutual Life. There was no downside for Chase in selling the tower at a discounted price quickly in the struggling office market.

The other transaction was the Bellevue CBD sale of Tower 333 (Expedia Tower) in November 2009 for \$167,990,226 or \$408 per rentable square foot. The Class A+ office tower built in 2007 was 98% leased to Expedia with nine years remaining on the lease. This sale may be a more reliable indicator of what market values might be for well-leased, high quality office high-rises.

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<sup>9</sup> Appraiser News, October 1992, "Special Task Force on Definition of Market Value/Fair Value – Comparison Chart"

With the current scarcity of acquisition financing and weak office fundamentals buyers are attracted to solid in-place financials and not value-added properties (offices requiring substantial lease-up at current low rates, high tenant improvements, and capital expenditures). The current high interest in the small number of high quality, well-leased offices that are on the market may result in a greater spread of capitalization rates with rates declining for these properties and cap rates continuing to climb for the high vacancy, lower-tier properties.

The lack of sales of area office properties marketed by willing sellers makes it difficult to determine the decline of value of this property sector from the peak market sales of 2007 by the market approach. However based on data through the first quarter of 2010, Moody's Investors Service states that over the past two years, western office prices have declined 27.1% versus 32.0% for the national office market as a whole.<sup>10</sup>

### **Sales comparison calibration**

Market sales of office specialty properties that occurred during the period from 1/01/2008 to 12/31/2009 were considered in the analysis. Other market sales of office buildings that were smaller than the office specialty threshold of 100,000 square feet net rentable, were sometimes included in the analysis (See list of Improvement Sales Used) when the sales were limited for a building type or submarket.

There was high office sales activity in 2006 and 2007 and very few sales in 2008 and 2009. In the current market where supply and demand are out of equilibrium little weight is given to the earlier sales that occurred in the accelerating market, and these sales are not included in the analysis. In the current recession phase of the office market cycle there are far too few current sales of different office types in the various submarkets to rely on the market approach to value.

While the limited sales were reviewed, the Income Approach is used in the final reconciliation of value because it allows greater equalization and uniformity of values for the various stratifications of office buildings and because market income data as of the valuation date is available.

### ***Cost approach model description***

Cost estimates are automatically calculated via the Marshall & Swift cost modeling system. Depreciation was based on studies done by Marshall & Swift Valuation Service. The cost was adjusted to the Western Region and the Seattle area. Marshall & Swift cost calculations are automatically calibrated to the data in place in the Real Property Application. Because of the difficulty in accurately determining the depreciation of older office properties, this approach to value was given the least weight in the final reconciliation of values of older office buildings. However, it was given more weight in

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<sup>10</sup> Moody's Investor Service, Real Commercial Property Price Indices, May 2010

the valuation of new construction and recently completed office buildings that have not been leased up. With the new buildings the cost method is reconciled with the income method as if leased to see if a downward adjustment should be made to the cost approach to reflect what may be an extended lease-up period in the current weak office market.

### **Cost calibration**

The Marshall & Swift cost-modeling system built into the Real Property Application is calibrated to this region and the Seattle area.

### ***Income capitalization approach model description***

A direct capitalization income approach estimate was calculated for all properties within the specialty. Due to the significance of the parking income contribution in the Seattle and Bellevue CBD's, and the fact that these parcels comprise the majority of the properties within the specialty, parking income was a necessary component of the direct capitalization process. The inability of the department's income table program to recognize parking stalls as an income generator precluded the use of income tables in the revaluation of the office specialty. Therefore, no tables were created. Instead three direct capitalization workbooks were created showing each property's income value estimate.

### **Income approach calibration**

The models were calibrated after setting base rents by considering necessary adjustments. Appraisal judgment was employed in adjusting for differences between individual buildings based on their perceived investment competitiveness in their respective markets. Location, effective age, construction and leasing class, quality and size as recorded in the Assessor's records were items considered to be of primary importance in determining a property's investment competitiveness and placement in the appropriate base rent category.

Within each of the six market segments, income parameters were established for economic rent, vacancy and credit loss, expenses, and capitalization rates for various groupings of properties based on their investment competitiveness. Rents, operating expenses, and capitalization rates were collected on sold properties when available. This data was then considered along with surveys conducted by outside resources, along with information gathered from properties available for lease and sale and utilized to establish general guidelines for neighborhood groupings. A rent survey was conducted to ascertain the income parameters typically reflected in the current office lease market. The information gathered is considered to be indicative of the current office-leasing environment and in most instances, the data reported is based on deals that have been made and are in place or will be in the near future.

In the “**Statistical Research Report of Seattle Office**” for Fourth Quarter 2009 Colliers International breaks out Seattle office submarkets, building counts, total building class square feet, direct and total vacancy, and average asking lease rates (Full Service).

<b>Market Area</b>	<b>Bldg Ct.</b>	<b>Total SF</b>	<b>Direct Vacant SF</b>	<b>Sublease Vacant SF</b>	<b>4<sup>th</sup> Qtr Direct Vacancy Rate</b>	<b>4<sup>th</sup> Qtr Total Vacancy Rate</b>	<b>Average Asking Lease Rate</b>
<b>Sea CBD</b>							
Class A	44	21,251,560	2,961,082	212,394	<b>13.9%</b>	14.9%	<b>\$31.04</b>
Class B	58	5,597,310	915,736	28,975	<b>16.4%</b>	16.9%	<b>\$23.54</b>
<b>Pioneer Sq / Waterfront</b>							
Class A	9	1,745,064	176,093	36,556	<b>10.1%</b>	12.2%	<b>\$24.00</b>
Class B	55	4,296,633	378,818	77,104	<b>8.8%</b>	10.6%	<b>\$20.12</b>
<b>Belltown / Denny Regrade</b>							
Class A	14	2,844,698	488,848	36,407	<b>17.2%</b>	18.5%	<b>\$27.48</b>
Class B	43	2,880,231	333,354	11,343	<b>11.6%</b>	12.0%	<b>\$24.63</b>
<b>Q. Anne / Magnolia</b>							
Class A	8	976,023	217,075	0	<b>22.2%</b>	22.2%	<b>\$23.01</b>
Class B	47	2,352,933	166,773	2,270	<b>7.1%</b>	7.2%	<b>\$21.38</b>
<b>Lake Union</b>							
Class A	15	2,903,797	1,445,371	14,042	<b>49.8%</b>	50.3%	<b>\$28.00</b>
Class B	74	5,219,700	318,849	11,230	<b>6.1%</b>	6.3%	<b>\$25.17</b>
<b>U District / Ballard</b>							
Class A	3	279,256	6,112	68,266	<b>2.2%</b>	26.6%	<b>\$26.45</b>
Class B	60	3,047,629	276,132	7,509	<b>9.1%</b>	9.3%	<b>\$24.00</b>
<b>Northgate / North Seattle</b>							
Class A	2	205,361	17,371	0	<b>8.5%</b>	8.5%	<b>\$25.68</b>
Class B	33	1,332,594	163,089	2,300	<b>12.2%</b>	12.4%	<b>\$22.72</b>
<b>Market Summary</b>							
Class A	95	30,205,759	5,311,952	367,665	<b>17.6%</b>	18.8%	<b>\$28.87</b>
Class B	370	24,727,030	2,552,751	140,731	<b>10.3%</b>	10.9%	<b>\$24.13</b>



In the “Statistical Research Report of Eastside Office” for Fourth Quarter 2009 Colliers International breaks out Eastside office submarkets, building counts, total building class square feet, direct and total vacancy, and average asking lease rates (Full Service).

<b>Market Area</b>	<b>Bldg Ct.</b>	<b>Total SF</b>	<b>Direct Vacant SF</b>	<b>Sublease Vacant SF</b>	<b>4<sup>th</sup> Qtr Direct Vacancy Rate</b>	<b>4<sup>th</sup> Qtr Total Vacancy Rate</b>	<b>Average Asking Lease Rate</b>
<b>Bellevue CBD</b>							
Class A	26	7,742,525	883,766	242,301	<b>11.41%</b>	14.54%	<b>\$34.28</b>
Class B	23	1,069,671	88,640	8,679	<b>8.29%</b>	9.10%	<b>\$28.49</b>
<b>1-90 Corridor</b>							
Class A	18	2,688,948	474,389	15,712	<b>17.64%</b>	18.23%	<b>\$28.59</b>
Class B	39	3,009,568	182,229	90,604	<b>6.05%</b>	9.07%	<b>\$27.12</b>
<b>520 Corridor</b>							
Class A	22	3,133,834	104,443	0	<b>3.33%</b>	3.33%	<b>N/A</b>
Class B	64	3,590,915	198,496	65,126	<b>5.53%</b>	7.34%	<b>\$23.61</b>
<b>Suburban</b>							
Class A	0	0	9	0	<b>N/A</b>	N/A	<b>N/A</b>
Class B	143	4,371,875	395,820	94,562	<b>9.05%</b>	11.22%	<b>\$26.95</b>
<b>Kirkland</b>							
Class A	16	1,264,646	231,437	88,181	<b>18.30%</b>	25.27%	<b>\$32.48</b>
Class B	97	3,089,628	328,669	179,404	<b>10.64%</b>	15.95%	<b>\$24.88</b>
<b>Redmond</b>							
Class A	27	3,057,813	359,061	23,300	<b>11.74%</b>	12.50%	<b>\$28.38</b>
Class B	60	2,976,706	367,615	94,040	<b>12.35%</b>	15.51%	<b>\$27.31</b>
<b>Issaquah/ Coal Crk</b>							
Class A	7	918,064	25,703	156,000	<b>2.80%</b>	19.79%	<b>\$27.23</b>
Class B	32	986,840	44,494	25,938	<b>4.51%</b>	7.14%	<b>\$24.00</b>
<b>Mercer Island</b>							
Class A	1	101,617	17,493	0	<b>17.21%</b>	17.21%	<b>\$35.00</b>
Class B	14	389,016	16,735	5,638	<b>4.30%</b>	5.75%	<b>\$23.73</b>
<b>Eastside Market Summary</b>							
<b>Class A</b>	117	18,907,447	2,096,292	525,494	<b>11.09%</b>	13.87%	<b>N/A</b>
<b>Class B</b>	472	19,484,219	1,622,698	563,991	<b>8.33%</b>	11.22%	<b>N/A</b>



In the “Statistical Research Report of South King County Office” for Fourth Quarter 2009 Colliers International breaks out office submarkets, building counts, total building class square feet, direct and total vacancy, and average asking lease rates (Full Service).

<b>Market Area</b>	<b>Bldg Ct</b>	<b>Total SF</b>	<b>Direct Vacant SF</b>	<b>Sublease Vacant SF</b>	<b>4<sup>th</sup> Qtr Direct Vacancy Rate</b>	<b>4<sup>th</sup> Qtr Total Vacancy Rate</b>	<b>Average Asking Lease Rate</b>
<b>South Seattle</b>							
Class A	5	606,164	112,274	0	<b>18.5%</b>	18.5%	<b>\$22.80</b>
Class B	43	1,422,956	38,500	1,250	<b>2.7%</b>	2.8%	<b>\$20.50</b>
<b>Tukwila</b>							
Class A	13	910,214	92,703	0	<b>10.2%</b>	10.2%	<b>\$21.00</b>
Class B	50	1,805,829	271,961	10,000	<b>15.1%</b>	15.6%	<b>\$19.00</b>
<b>Renton</b>							
Class A	25	2,047,045	146,791	16,601	<b>7.2%</b>	8.0%	<b>\$21.50</b>
Class B	68	3,090,391	168,889	31,336	<b>5.5%</b>	6.5%	<b>\$20.00</b>
<b>SeaTac</b>							
Class A	4	607,803	76,981	17,219	<b>12.7%</b>	15.5%	<b>\$22.20</b>
Class B	26	783,422	73,283	0	<b>9.4%</b>	9.4%	<b>\$18.75</b>
<b>Kent / Auburn</b>							
Class A	12	1,070,650	248,706	24,851	<b>23.0%</b>	25.6%	<b>\$21.75</b>
Class B	46	1,349,563	190,371	0	<b>14.1%</b>	14.1%	<b>\$19.50</b>
<b>Federal Way</b>							
Class A	16	1,143,597	234,081	187,955	<b>20.5%</b>	36.9%	<b>\$20.50</b>
Class B	57	1,687,882	427,117	10,576	<b>25.3%</b>	25.9%	<b>\$19.00</b>
<b>Market Summary</b>							
<b>Class A</b>	75	6,385,473	911,536	246,626	<b>14.3%</b>	18.1%	<b>\$21.83</b>
<b>Class B</b>	290	10,140,043	1,170,121	53,162	<b>11.5%</b>	12.1%	<b>\$19.47</b>

Officespace.com provides statistics on leased office buildings throughout King County. Submarkets are delineated and broken out into leasing class, number of buildings, direct vacant square feet, vacancy with sublet, future available square feet, and weighted average asking lease rate. The information in the following table is the 4<sup>th</sup> Quarter 2009 statistics from Officespace.com for the Seattle submarkets that were considered useful in the current revaluation.

<b>Class</b>	<b># Bldgs</b>	<b>Total Sq. Ft.</b>	<b>Direct Vac. SF</b>	<b>Direct Vac.</b>	<b>Sublease SF</b>	<b>Vac. w/ Sublet</b>	<b>Future Vac.</b>	<b>Av. Lease FS</b>
<b>Seattle CBD</b>								
<b>A+</b>	8	7,509,754	1,155,023	<b>15.4%</b>	187,201	17.87%	353,800	<b>\$34.75</b>
<b>A</b>	40	11,590,767	1,777,396	<b>15.03%</b>	301,834	17.94%	81,647	<b>\$28.66</b>
<b>B</b>	50	4,200,165	607,082	<b>14.5%</b>	65,830	16.02%	22,568	<b>\$24.77</b>
<b>Denny Regrade</b>								
<b>A</b>	18	3,583,915	1,043,472	<b>29.1%</b>	161,187	33.61%	4,923	<b>\$27.93</b>
<b>B</b>	39	1,657,628	212,225	<b>12.8%</b>	55,957	16.18%	0	<b>\$21.66</b>
<b>Lake Union</b>								
<b>A</b>	39	3,012,485	437,606	<b>14.5%</b>	321,187	25.19%	56,227	<b>\$28.17</b>
<b>B</b>	60	1,348,178	102,265	<b>7.6%</b>	5,509	7.99%	4,575	<b>\$19.43</b>
<b>Pioneer Sq.</b>								
<b>A</b>	14	1,926,958	509,586	<b>26.4%</b>	73,366	30.41%	650,527	<b>\$29.45</b>
<b>B</b>	44	1,982,667	355,047	<b>17.9%</b>	30,265	19.43%	43,508	<b>\$22.02</b>
<b>Queen Anne/ Magnolia</b>								
<b>A</b>	15	785,645	51,613	<b>6.6%</b>	0	6.6%	0	<b>\$23.06</b>
<b>B</b>	29	955,679	99,479	<b>10.4%</b>	6,700	11.11%	20,000	<b>\$22.48</b>
<b>Waterfront</b>								
<b>A</b>	24	2,492,917	350,668	<b>14.01</b>	25,470	15.09%	375,512	<b>\$30.48</b>
<b>B</b>	28	1,790,107	189,563	<b>10.6%</b>	32,204	12.39%	25,731	<b>\$20.49</b>
<b>Ballard/ University</b>								
<b>A</b>	24	1,552,983	104,544	<b>6.7%</b>	104,130	13.44%	0	<b>\$27.04</b>
<b>B</b>	43	1,073,638	63,119	<b>5.9%</b>	30,545	8.72%	3,400	<b>\$22.26</b>
<b>Cap./First Hill</b>								
<b>A</b>	10	987,607	279,176	<b>28.3%</b>	18,573	30.15%	0	<b>\$37.08</b>
<b>B</b>	41	1,070,148	218,903	<b>20.5%</b>	3,790	20.81%	0	<b>\$23.75</b>
<b>Northgate/ North Seattle</b>								
<b>A</b>	11	535,559	39,239	<b>7.3%</b>	0	7.3%	0	<b>\$26.15</b>
<b>B</b>	41	1,043,895	167,637	<b>16.1%</b>	19,920	17.97%	0	<b>\$22.06</b>

The information in the following table was the 4<sup>th</sup> Quarter 2009 statistics from Officespace.com for the Bellevue CBD and I-90 submarkets.

<b>Class</b>	<b># Bldgs</b>	<b>Total Sq. Ft.</b>	<b>Direct Vac. SF</b>	<b>Direct Vac.</b>	<b>Sublease SF</b>	<b>Vac. w/ Sublet</b>	<b>Future Vac.</b>	<b>Av. Lease Rate (FS)</b>
<b>Bellevue CBD</b>								
A+	12	4,845,957	554,950	<b>11.5%</b>	148,390	14.51%	155,681	<b>\$37.40</b>
A	24	3,646,903	364,705	<b>10.0%</b>	232,038	16.36%	134,945	<b>\$34.59</b>
B	24	543,889	86,811	<b>16.0%</b>	22,308	20.06%	53,059	<b>\$27.61</b>
<b>Bellevue Suburban</b>								
A	34	1,301,412	150,755	<b>11.6%</b>	30,200	13.90%	36,054	<b>\$27.80</b>
B	129	2,372,512	200,435	<b>8.4%</b>	30,630	9.74%	47,193	<b>\$24.28</b>
<b>I-90</b>								
A	97	6,495,392	802,238	<b>12.4%</b>	279,781	16.66%	60,574	<b>\$27.75</b>
B	38	931,718	106,965	<b>11.5%</b>	58,667	17.78%	101,780	<b>\$25.49</b>
<b>Bothell/ Woodinville</b>								
A	47	2,684,402	403,876	<b>15%</b>	54,610	17.08%	63,292	<b>\$23.26</b>
B	8	86,176	5,776	<b>6.7%</b>	0	6.7%	5,759	<b>\$23.49</b>
<b>Kirkland/ Totem Lake</b>								
A	46	2,170,112	392,213	<b>18.1%</b>	193,970	27.01%	21,837	<b>\$30.29</b>
B	43	721,610	30,163	<b>4.2%</b>	0	4.2%	17,560	<b>\$23.41</b>
<b>Redmond/ Willows</b>								
A	50	3,109,733	613,908	<b>19.7%</b>	77,863	22.25%	150,211	<b>\$25.99</b>
B	20	249,148	16,994	<b>6.8%</b>	0	6.8%	0	<b>\$23.58</b>

The information in the following table was the 4<sup>th</sup> Quarter 2009 statistics from Officespace.com for the South County office sub-markets.

<b>Class</b>	<b># Bldgs</b>	<b>Total Sq. Ft.</b>	<b>Direct Vac. SF</b>	<b>Direct Vac.</b>	<b>Sublease SF</b>	<b>Vac. w/ Sublet</b>	<b>Future Vac.</b>	<b>Av. Lease Rate (FS)</b>
<b>Renton/ Tukwila</b>								
A	49	2,705,687	345,842	<b>12.8%</b>	33,099	14.01%	23,075	<b>\$21.64</b>
B	79	2,081,933	513,900	<b>24.7%</b>	15,488	25.43%	20,413	<b>\$19.61</b>
<b>SeaTac</b>								
A	6	646,339	78,728	<b>12.2%</b>	17,219	14.84%	243,207	<b>\$23.22</b>
B	18	256,902	28,891	<b>11.2%</b>	0	11.2%	16,000	<b>\$18.13</b>
<b>Kent/ Auburn</b>								
A	28	1,390,994	293,397	<b>21.1%</b>	8,466	21.70%	115,759	<b>\$21.10</b>
B	28	564,994	116,137	<b>20.6%</b>	0	20.6%	1,150	<b>\$15.92</b>
<b>South/ West Seattle</b>								
A	14	1,031,192	192,424	<b>18.7%</b>	0	18.7%	0	<b>\$23.00</b>
B	25	2,149,891	67,772	<b>3.2%</b>	0	3.2%	210,369	<b>\$19.81</b>
<b>Federal Way</b>								
A	31	1,687,195	465,955	<b>27.6%</b>	243,187	42.03%	0	<b>\$21.02</b>
B	43	715,832	115,750	<b>16.2%</b>	8,505	17.36%	0	<b>\$18.34</b>

According to the CB Richard Ellis Fourth Quarter 2009 Puget Sound Office Market Report full service asking lease rates and operating expenses reported by brokers for Class A, B and C properties (includes all multi-tenant office buildings 10,000 square feet and greater in size) indicate the following:

<b>Seattle</b>	<b>Yr End</b>	<b><u>Full Service Lease Rates(Asking rates)</u></b>			<b><u>Operating Expenses *</u></b>		
<b>Market Area</b>		<b>Class A</b>	<b>Class B</b>	<b>Class C</b>	<b>Class A</b>	<b>Class B</b>	<b>Class C</b>
<b>Seattle CBD</b>	2008	\$28-\$48	\$28-\$36	\$22-\$28	\$9.50-\$12.50	\$6.00-\$10.00	\$6.00-\$9.00
	<b>2009</b>	<b>\$25.50-\$39</b>	<b>\$24-\$36</b>	<b>\$20-\$24</b>	<b>\$9.50-\$12.50</b>	<b>\$6.00-\$10.00</b>	<b>\$6.00-\$9.00</b>
<b>Denny Regrade</b>	2008	\$23-\$36	\$22-\$34	\$18.50-\$27	\$7.50-\$9.50	\$6.00-\$8.50	\$5.50-\$7.00
	<b>2009</b>	<b>\$22-\$29</b>	<b>\$20-\$28</b>	<b>\$17.50-\$27</b>	<b>\$7.50-\$9.50</b>	<b>\$6.00-\$8.50</b>	<b>\$5.50-\$7.00</b>
<b>Lake Union</b>	2008	\$26-\$34	\$20-\$32	\$18-\$22	\$8.00-\$9.50	\$6.25-\$8.25	\$5.50-\$6.50
	<b>2009</b>	<b>\$22.50-\$28</b>	<b>\$19-\$28</b>	<b>\$18.50</b>	<b>\$8.00-\$9.50</b>	<b>\$6.25-\$8.25</b>	<b>\$5.50-\$6.50</b>
<b>Lower Queen Anne</b>	2008	\$23-\$32	\$20-\$25	\$18-\$22	\$7.00-\$9.00	\$6.00-\$7.25	\$5.50-\$6.50
	<b>2009</b>	<b>\$20-\$27</b>	<b>\$19-\$25</b>	<b>\$18-\$23</b>	<b>\$7.00-\$9.00</b>	<b>\$6.00-\$7.25</b>	<b>\$5.50-\$6.50</b>
<b>Pioneer Square</b>	2008	\$23-\$38	\$22-\$30	\$18-\$23	\$7.50-\$8.50	\$6.00-\$7.75	\$5.00-\$6.50
	<b>2009</b>	<b>\$24-\$28</b>	<b>\$19-\$27</b>	<b>\$18-\$24</b>	<b>\$7.50-\$8.50</b>	<b>\$6.00-\$7.75</b>	<b>\$5.00-\$6.50</b>
<b>Waterfront</b>	2008	\$26-\$38	\$20-\$26	\$19-\$27	\$7.50-\$9.50	\$6.25-\$8.25	\$5.50-\$6.50
	<b>2009</b>	<b>\$22-\$34</b>	<b>\$19.50-\$28</b>	<b>\$18-\$21</b>	<b>\$7.50-\$9.50</b>	<b>\$6.25-\$8.25</b>	<b>\$5.50-\$6.50</b>
<b>Canal</b>	2008	\$24-\$30	\$18-\$26	\$17-\$20	\$6.50-\$8.00	\$6.00-\$7.25	\$5.00-\$6.50
	<b>2009</b>	<b>\$22-\$30</b>	<b>\$19.50-\$27</b>	<b>\$19.50</b>	<b>\$6.50-\$8.00</b>	<b>\$6.00-\$7.25</b>	<b>\$5.00-\$6.50</b>
<b>Seattle Downtown</b>	2008	\$23-\$48	\$18-\$36	\$17-\$28	\$6.50-\$11.75	\$6.00-\$10.00	\$5.00-\$9.00
	<b>2009</b>	<b>\$20-\$39</b>	<b>\$19-\$36</b>	<b>\$17.50-\$27</b>	<b>\$6.50-\$11.75</b>	<b>\$6.00-\$10.00</b>	<b>\$5.00-\$9.00</b>

- Operating expenses include property taxes, but do not include leasing commissions or tenant improvements

CB Richard Ellis 4<sup>th</sup> Quarter 2009 Puget Sound Office Market Report indicates the following full service asking lease rates and operating expenses for Eastside submarkets:

	<u>Year End</u>	<u>Full Service Lease Rates (Asking Rates)</u>			<u>Operating Expenses*</u>		
<b>Market Area</b>		<b>Class A</b>	<b>Class B</b>	<b>Class C</b>	<b>Class A</b>	<b>Class B</b>	<b>Class C</b>
<b>BellevueC BD</b>	2008	\$32.00- \$44.00	\$24.00- \$28.00	\$22	\$9- \$10.75	\$7.50-\$8	--
	<b>2009</b>	<b>\$27-\$41</b>	<b>\$24.50- \$30</b>	<b>\$15- \$23.50</b>	<b>\$9- \$10.75</b>	<b>\$7.50-\$8</b>	--
<b>I-405</b>	2008	\$27.00- \$37.00	\$24.00- \$35.00	\$22.00- \$26.00	\$7.50- \$9.25	\$6.75- \$7.25	\$6.50-\$7.25
	<b>2009</b>	<b>\$22- \$30.50</b>	<b>\$21-\$30</b>	<b>\$21-\$26</b>	<b>\$7.50- \$9.25</b>	<b>\$6.75- \$7.25</b>	<b>\$6.50-\$7.25</b>
<b>SR-520</b>	2008	\$24.00- \$31.50	\$21.50- \$28.00	\$20.00- \$25.00	\$7.50- \$9.25	\$6.75- \$7.75	\$6.50-\$7.25
	<b>2009</b>	<b>\$23.50- \$29.50</b>	<b>\$21.50- \$27</b>	<b>\$18-\$26</b>	<b>\$7.50- \$9.25</b>	<b>\$6.75- \$7.75</b>	<b>\$6.50-\$7.25</b>
<b>I-90</b>	2008	\$24.00- \$39.00	\$24.00- \$33.00	\$22.00- \$27.00	\$7.50- \$9.50	\$7.00- \$8.00	--
	<b>2009</b>	<b>\$25- \$35.50</b>	<b>\$23-\$30</b>	<b>\$22- \$26.50</b>	<b>\$7.50- \$9.50</b>	<b>\$7.00- \$8.00</b>	--
<b>Bel-Red- Road Corridor</b>	2008	\$28.00- \$30.00	\$21.00- \$29.00	\$20.00- \$25.50	\$6.50- \$7.50	\$6.25- \$7.25	\$5.50-\$7
	<b>2009</b>	<b>\$22-\$34</b>	<b>\$21-\$26</b>	<b>\$18- 25.50</b>	<b>\$6.50- \$7.50</b>	<b>\$6.25- \$7.25</b>	<b>\$5.50-\$7</b>
<b>Kirkland</b>	2008	\$27.50- \$40.00	\$24.50- \$34.00	\$22.00- \$28.00	\$7.50- \$8.75	\$6.50- \$7.00	\$6.25-\$8.00
	<b>2009</b>	<b>\$25-\$35</b>	<b>\$22.50- \$32</b>	<b>\$16.25- \$22</b>	<b>\$7.50- \$8.75</b>	<b>\$6.50- \$7.00</b>	<b>\$6.25-\$8.00</b>
<b>Redmond</b>	2008	\$27.50- \$37.50	\$24.00- \$28.00	\$22.00- \$28.00	\$7.25- \$8.00	\$6.25- \$6.75	--
	<b>2009</b>	<b>\$22-\$34</b>	<b>\$20-\$27</b>	<b>\$20-\$26</b>	<b>\$7.25- \$8.00</b>	<b>\$6.25- \$6.75</b>	--
<b>Bothell</b>	2008	\$25.00- \$30.00	\$20.00- \$22.00	---	\$7.25- \$8.00	\$6.25- \$6.75	--
	<b>2009</b>	<b>\$20-\$30</b>	<b>\$18-\$24</b>	---	<b>\$7.25- \$8.00</b>	<b>\$6.25- \$6.75</b>	--
<b>Total – Eastside</b>	<b>2009</b>	<b>\$20-\$41</b>	<b>\$18-\$32</b>	<b>\$15- \$26.50</b>	<b>\$6.50- \$10.75</b>	<b>\$6.25- \$8.00</b>	<b>\$5.50-\$8.00</b>



Corporate Real Estate Service Advisors (CRESA) Tenant's Guide for Seattle and Bellevue indicate the following average office rental rates.

<b>SeattleCBD</b>	<b>Q3 2009</b>	<b>Q4 2009</b>	<b>Q1 2010</b>
Class A	\$29.81	\$29.72	\$28.34
Class B	\$24.65	\$25.86	\$24.64
<b>Seattle Denny Regrade</b>			
Class A	\$26.97	\$27.04	\$29.22
Class B	\$21.66	\$22.13	\$21.63
<b>Bellevue CBD</b>			
Class A	\$36.01	\$35.11	\$34.91
Class B	\$29.62	\$24.50	\$33.86
<b>Suburban</b>			
Class A	\$30.26	\$29.89	\$29.04
Class B	\$25.64	\$24.93	\$24.79

Both direct vacancy rates and overall vacancy rates (overall includes sublease space available) were reviewed for the following analyses. Typically the direct vacancy assumption is utilized. Submarket vacancy rates often varied substantially in different published surveys depending on submarket delineation. For example, Colliers has placed several of the new speculative office high-rises in the Lake Union neighborhood while Officespace.com has them in the Denny Regrade neighborhood, resulting in very different vacancy rates. To recognize the generally high vacancy and competitiveness of most of the Seattle downtown neighborhoods a Class A vacancy rate of 15% to 20% was applied to all the Class A offices in these submarkets. Elsewhere, appraisal judgment was also applied in reconciling various vacancy surveys in other submarkets. Higher capitalization rates were applied to office properties with vacancies substantially higher than 20%. If an office property's situation was deemed far inferior from the "norm" requiring a multi-year lease up period it might be valued via a discounted cash flow analysis thereby allowing recognition of the "extreme" vacancy situation and then reconciled with the direct capitalization analysis.

The specific "norm" vacancy rate(s) will be indicated later in the brief description of the income parameters utilized in each of the six market segments.

Following are lists of office cap rates for both the Seattle Metropolitan office market and the national office market:

Seattle Metro Area Office Cap Rates						
Source	Date	Location	Type	Range	Average	Remarks
Integra Realty Resources - Viewpoint 2010	Yr. End 2009	Seattle	CBD Office		7.50%	Going-in cap rate – up 50 basis points from one year earlier
		Seattle	Suburban Office		8.00%	Going-in cap rate – up 50 basis points from one year earlier
American Council of Life Insurance (Commercial Mortgage Commitments)	4 <sup>th</sup> Qtr 09	Seattle-Bellevue-Everett	Office		N/A	insufficient sales to issue quarterly report for Seattle region
		Pacific Region	Office		7.80%	Based on 30 loans with average loan amount of \$12 million
Real Capital Analytics	4 <sup>th</sup> Qtr 09	Seattle Metropolitan Area	Office		N/A	insufficient sales to issue quarterly report for Seattle region
	3 <sup>rd</sup> Qtr 09		Office		7.25%	down from 7.5% previous qtr
CBRE Capital Markets Cap Rate Survey	Year End 2009	Seattle	CBD Office Class A	7.50% - 8.50%		survey – stabilized offices not value added properties
			Suburban Office Class A	8.00% - 9.00%		survey (not sales) based – stabilized offices not value added properties
Marcus & Millichap Medical Office Research Report – 2010 Outlook	2 <sup>nd</sup> Half 2009	West/Pacific NW	Medical Office		mid 7% range	average sales price of \$272/sf – down 10% from end of 2008
Co Star Year-End 2009 Office Review & Outlook	Yr. End 2009	Seattle Metropolitan Area	Office		7.90%	Weighted Average
Korpacz Real Estate Investor Survey	4 <sup>th</sup> Qtr 2009	Pacific NW	Office	8.00% - 12.00%		Survey (not sales) based – includes other Northwest cities & suburbs

National Office Cap Rates						
Source	Date	Location	Type	Range	Average	Remarks
Emerging Trends in Real Estate 2010 Survey	Aug - 2009	National	Downtown Office		8.03%	survey in mid 2009 by Urban Land Institute & PricewaterhouseCoopers
			Suburban Office		8.85%	
Grubb & Ellis Forecast Report 2010	Year End 2009	National	Office		8.00%	Based on closed sales – Source: Grubb & Ellis, Real Capital Analytics
American Council of Life Insurance (Com. Mortgage Commitments)	4 <sup>th</sup> Qtr 2009 –	National	Office – with unit value over \$100/sf		7.90%	Data based on sales with fixed rate mortgages
			Office: 100,001 SF - 200,000 SF +	7.30% - 8.70%		
Integra Realty Resources-Viewpoint 2010	Yr. End 2009	National	CBD Office	7% - 12.00%		Institutional Grade Properties
		National	Suburban Office	7.00% - 11.00%		Institutional Grade Properties
Korpacz R.E. Investor Survey	4 <sup>th</sup> Qtr 2009	National	CBD Office	5.60 - 11.00%	8.24%	Up 110 basis points from 1 year earlier
			Suburban Office	6.75% - 12.00%	8.75%	Up 116 basis points from 1 year earlier
Marcus & Millichap Special Research Report – Medical Office	First Half 2010	National	Medical Office-Highest-Quality Assets		low-to-mid 7% range	
			Secondary markets		mid 8%	



The published office capitalization rates indicate that rates for the Seattle Metropolitan Area are generally lower than the national rates. Seattle is the tenth largest office market in the nation and is considered a top-tier market. The Co-Star 1<sup>st</sup> Quarter 2010 Office Review and Outlook states that capitalization rates in the Tier 1 CBDs are up to 200 basis points lower than the U.S. average. The difficulty as of the valuation date is the lack of sales and data points needed to establish reliable capitalization trends in the current Seattle/Eastside/South County office markets. There are few willing sellers of institutional grade office buildings. Real Capital Analytics and the American Council of Life Insurance both declined to state 4<sup>th</sup> quarter office capitalization rates for the Seattle area because of the lack of the lack of sales data.

When market sales are available an attempt is made to ascertain the capitalization rate on the sale or a pro-forma cap rate on the first year performance during the sales verification process. Whenever possible information on the occupancy level, lease rates, tenancy terms, and expenses is collected to determine how the sale compares to the current economic parameters of the market and how the leased fee cap rate compares to a fee simple cap rate.

The following table shows the typical capitalization rates used in the 1/01/2010 revaluation of the properties in the office specialty:

<b>Office Building Type &amp; Market</b>	<b>Capitalization rate applied *</b>
Class A+ & A Seattle CBD Offices – (high-rise, mid-rise, low-rise in downtown sub-areas)	<b>7.50% to 8.50%</b>
Class A Seattle in-close – (Fremont, U-District, Northgate, West Seattle)	<b>7.75% to 9.00%</b>
Class B Seattle CBD (downtown sub-areas)	<b>8.00% to 9.00%</b>
Class A+ & A Bellevue CBD – (high-rise, mid-rise, low-rise) & Mercer Island, & Kirkland Waterfront	<b>7.25% to 8.50%</b>
Class A- & B in Bellevue CBD	<b>8.00% to 8.75%</b>
Class A & B - Eastside Suburban	<b>7.50% to 8.75%</b>
South County A & B	<b>8.00% to 9.00%</b>
Medical Office Buildings	<b>7.50 % to 8.25%</b>

- The range of capitalization rates reflect the building age, quality and competitiveness with the lower rates applied to the higher quality office buildings. Higher rates might be applied to the lesser quality office buildings or to properties that have higher than the normal sub-market vacancy, substantial sub-lease vacancy, or physical issues that require additional capital investment.

The following is a brief description of the income parameters utilized in each of the six market segments:

**North:** Full service lease rates ranged from \$22 - \$30 per square foot of rentable area. Vacancy and collection loss figures used in this area was 10%-20%, expenses \$8.00 - \$9.00/NRA and overall capitalization rates were 7.75% to 9.00%. Values on a price per square foot of rentable area fell in the \$107 - \$251 range.

**Seattle CBD & Adjacent Submarkets:** Values on a price per square foot of rentable area fell in the \$82 - \$307 range. Lease rates ranged from \$16.00 - \$33.50 per square foot of rentable area. Vacancy and collection loss figures used in this area ranged from 15% - 20% with the majority at 15%, expenses ranged from \$7.50 - \$11.50/NRA, and overall rates ranged from 7.5% - 9.0% with the majority being 7.5% - 8.0%. A few properties included consideration of income from retail rents. This was considered for properties where the retail space represented approximately 5% or more of total NRA. The retail lease rate range utilized was \$15 - \$40/NRA, triple net rent. The vacancy and collection loss figure for retail space was typically 5% and the triple net expense rate was 5%.

Additionally, income from parking was considered. Income was based on an allocation of total parking spaces into daily and monthly rates. Monthly spaces were calculated as representing 67% of the total spaces while daily spaces accounted for the remaining 33%. The Assessor's 2008 Office Building Parking Survey and Analysis used information supplied by parking managers of the office buildings, completed office leases, monthly rates listed in officespace.com, and data from the 2006 Parking Inventory Survey for Seattle and Bellevue prepared by the Puget Sound Regional Council (this bi-yearly survey has not been available since 2006) to determine the parking neighborhoods, rates, and occupancy levels). No turnaround on the daily spaces was recognized. A parking expense rate of 15 - 25% was applied to parking income to arrive at a net parking income contribution figure with the older stand-alone parking garages typically incurring the higher expenses. A downward adjustment to the daily and monthly rates was applied for the 1/01/2010 valuation to reflect the office market downturn.

The following is a description of the parking income parameters used in the income approach to value the Downtown Seattle office properties. A map of the parking neighborhoods is included in the addendum of the office report.

Seattle CBD			
Neighborhood	Daily Rate	Monthly Rate	Occupancy
1	\$17.00	\$175.00	65%
2 (International District)	N/A	N/A	N/A
3	\$12.00	\$155.00	80%
4	\$21.00	\$260.00	75%
5	\$24.00	\$270.00	75%
6	\$15.00	\$175.00	75%
7	\$21.00	\$260.00	75%
8	\$23.00	\$270.00	75%
9	\$14.00	\$190.00	65%
10	\$11.00	\$140.00	70%
11	\$11.00	\$140.00	70%
12	\$14.00	\$210.00	75%
13	\$13.00	\$190.00	75%
Lower Queen Anne / South Lake Union			
Neighborhood	Daily Rate	Monthly Rate	Occupancy
17	\$ 9.00	\$165.00	70%
18	\$ 7.00	\$ 95.00	50%
19	\$ 9.00	\$120.00	65%

**Bellevue CBD:** Values on a price per square foot of net rentable area fell in the \$173 - \$345 per square foot range. Lease rates ranged from \$22 - \$35 per rentable square foot. Vacancy and collection loss figures used for the offices were 11.5% - 20%, expenses ranged from \$8.50 - \$11.50/NRA, and capitalization rates ranged from 7.25% - 8.75%. One property included consideration of income from retail rents. The retail lease rate utilized was \$25/nra, triple net rent with a 10 % vacancy and collection loss assumption and operating expenses of 5%. It is unusual for office buildings in this segment to have significant retail space included.

Additionally, income from parking was considered. Income was based on an allocation of total parking spaces into daily and monthly rates. Monthly spaces were calculated as representing 67% of the total spaces while daily spaces accounted for the remaining 33%. The Assessor's 2008 Parking Survey and Analysis for Seattle and Bellevue was utilized as a basis for establishing parking and occupancy rates in the various neighborhoods in the

Downtown Bellevue. No turnaround on the daily spaces was recognized. A parking expense rate of 15% - 25% was applied to parking income to arrive at a net parking income contribution figure. A downward adjustment to the daily and monthly rates was applied for the 1/01/2010 valuation to reflect the office market downturn.

Bellevue CBD & Suburban			
Neighborhood	Daily Rate	Monthly Rate	Occupancy
CBD - core	\$15.00	\$165.00	75%
CBD - periphery	\$14.00	\$140.00	75%
East of I-405	\$11.00	\$120.00	70%

**Suburban Eastside:** Lease rates ranged from \$24 - \$34 per square foot of net rentable area. Vacancy and collection loss figures used in this area were 10% - 20%, expenses were \$8.00 - \$11/NRA and overall rates were 7.5% - 8.75%. Parking was not analyzed as an additional income contributor as parking has typically been included at no charge. Values on a price per square foot of net rentable area fell in the \$153 - \$239 range.

**South End:** Renton, Tukwila, Southcenter, Kent, SeaTac, and Federal Way - Lease rates ranged from \$16.00 - \$28.00 per square foot of rentable area with the majority at \$19.50 - \$21.50. Vacancy and collection loss figures used in this area were 10% - 20%. Expenses in the South End submarkets were \$6.50 - \$9.50. Overall rates in the South End were typically 8.0% - 8.75% (with the exception of two Federal Way offices one of which was 2/3'rds vacant and one that remains 100% vacant). Values on a price per square foot of net rentable in the South County office market fell in the \$63 - \$196 range.

**Medical Office Buildings:** Values on a price per square foot of net rentable area fell in the \$136 - \$323 range. Full service lease rates ranged from \$23 - \$36 per square foot of net rentable area. Vacancy and collection loss figures in this segment were 10% and expenses ranged from \$10.00 - \$13.75/NRA. Overall rates ranged from 7.5% - 8.5%.

Parking income contributions were included depending upon the location of the property. Downtown Seattle, First Hill and the University District locations included recognition of this income. Income was based on an allocation of total parking spaces into daily and monthly rates. Monthly spaces were calculated as representing 67% of the total spaces while daily spaces accounted for the remaining 33%. The Assessor's 2008 Parking Survey/Analysis for Seattle was utilized as a basis for establishing parking rates in these neighborhoods. A parking expense rate of 15% was applied to parking income to arrive at a net parking income contribution figure. A downward adjustment to the daily and monthly rates was applied for the 1/01/2010 valuation to reflect the office market downturn.

First Hill			
Neighborhood	Daily Rate	Monthly Rate	Occupancy
14	\$14.00	\$150.00	80%
15	\$11.00	\$140.00	80%
16	\$11.00	\$130.00	75%
University District			
Neighborhood	Daily Rate	Monthly Rate	Occupancy
3	\$ 9	\$80	65%

### ***Reconciliation and or validation study of calibrated value***

Each parcel was individually reviewed by the specialty appraiser for correctness of the model application before the final value was selected. The income approach to valuation is given greatest weight in the final analysis due to the information available.

## **Model Validation**

### ***Total Value Conclusions, Recommendations and Validation:***

Appraiser judgment prevails in all decisions regarding individual parcel valuation. Each parcel is reviewed and a value selected based on general and specific data pertaining to the parcel, the neighborhood, and the market. The appraiser determines which available value estimate may be appropriate and may adjust for particular characteristics and conditions as they occur in the valuation area.

This valuation reflects the changing office market dynamics as of 1/01/2010. These include rising market vacancy rates, lower effective lease rates, higher capitalization rates reflecting the greater risk involved in commercial real estate investments, and a lack of market sales by willing sellers. The weaker market income parameters have resulted in a decrease in office valuations by the income method

Application of these recommended values for the 2010 assessment year results in a total change from the 2009 assessments of -17.12%. The decrease would be greater if some new construction was not included in the 2010 valuation total. The total assessed value for the 2009 assessment year was \$13,891,545,284 and the total recommended assessed value for the 2010 assessment year is \$11,513,996,900.

## Improved Sales for Area 280 – (Only 2008 & 2009 Sales Used in Analysis)

### BELLEVUE CBD SALES

Area	Major	Minor	Total NRA	E #	Sale Price	Sale Date	SP NRA /	Property Name	Zone	Par. Ct.	Ver. Code	Remarks
280	322505	9016	408,460	2183749	\$129,778,102	01/26/06	\$318	SKYLINE TOWER	CBDO1	1	2	7% vac on 1/01/06, \$28.50 - \$32.50 asking rates
280	154410	0320	305,800	2240310	\$175,743,064	09/25/06	\$575	CIVICA OFFICE COMMONS	CBD-MU	1	2	0% vac, average rent \$31 N, Microsoft & other blue chip tenants
280	322505	9066	468,069	2279574	\$203,800,613	04/10/07	\$435	CITY CENTER BELLEVUE	DNTNO-1	1	2	4% vac with FS asking rates of \$37.50 - \$40 & \$9.86/sf expenses as of sale date – Part of bulk portfolio sale
280	322505	9181	224,725	2279580	\$80,000,000	04/10/07	\$356	110 ATRUIM BLDG.	DNTN-MU	1	2	11% vac and FS asking rates of \$29.50 - \$30 & \$9.13/sf expenses as of sale date – Part of bulk portfolio sale
280	292505	9357 9358 9048	473,392	2279582	\$156,208,181	04/10/07	\$330	US BANK PLAZA, PLAZA CENTER, & PARKING GARAGE	DNTNO-2	3	2	10% vac for US Bank, 3% vac for Plaza Center, FS asking rates of \$31 - \$34 & \$9/sf expenses as of sale date - Part of bulk portfolio sale
280	600950	0035	147,802	2279583	\$49,112,479	04/10/07	\$332	PLAZA EAST	DNTN-MU	1	2	7% vac – FS rates of \$31- 34 & \$9/sf expenses at sale - Part of bulk portfolio sale
280	104700	0005	137,349	2365486	\$47,000,000	09/30/08	\$342	PACIFIC PLAZA	DNTN-MU	1	2	11% vac with asking rates of \$23 - \$33 N as of sale date
280	154410	0316	412,977	2416937	\$167,990,226	11/09/09	\$408	EXPEDIA TOWER (TOWER 333)	DNTNO-2	1	2	98% leased at sale – Expedia occupies 347,661 SF – asking rate at sale was \$37 NNN & expenses were \$10.48/sf

Verification Code # 2 indicates a market sale

**SUBURBAN EASTSIDE SALES (Only 2008 & 2009 Sales used in analysis)**

Area	Major	Minor	Total NRA	E #	Sale Price	Sale Date	SP / NRA	Property Name	Zone	Par. Ct.	Ver. Code	Remarks
85	124870	0135	75,129	2271658	\$27,050,000	03/14/07	\$360	CONTINENTAL PLAZA	CBD5	1	2	Not in specialty (too small); 66% occupied at time of sale, \$23.50 NNN asking rates, \$7.50 /sf expenses
280	066287	0010	111,257	2279588	\$37,500,000	04/10/07	\$337	BELLEVUE GATEWAY BLDG.	OLB	1	2	20% vac, FS asking rates of \$28 - \$28.50 & \$9.18/sf expenses at time of sale - Part of bulk portfolio
280	128360	0060	270,973	2279576	\$75,754,805	04/10/07	\$280	EASTGATE OFFICE PARK	O	1	2	2.4% & 0% vac - 2 bldgs, Net asking rates of \$21 - \$23 at time of sale - Part of bulk portfolio sale
280	531510	0546	101,617	2279598	\$42,000,000	04/10/07	\$413	ISLAND CORPORATE CENTER	TC	1	2	5% vac, FS asking rates of \$31 & \$9.54/sf expenses as time of sale - Part of bulk portfolio sale
280	813530	0060 0070 0080 0090 0100 0110	447,902	2279585	\$176,122,693	04/10/07	\$393	SUNSET NORTH BLDGS 1, 2, 3, & PARKING GARAGE	OLB	6	2	0% vac, Net asking rates of \$22 - \$25 at time of sale - Part of bulk portfolio sale
280	697920	0050	193,454	2305778	\$50,500,000	08/09/07	\$261	PLAZA at NORTH CREEK	R-AC, OP	1	2	6% vac East bldg, 0% vac in North bldg, Net asking rates of \$19 at time of sale - - Part of bulk portfolio sale
80	272505	9103	143,191 (2 bldgs)	2358158	\$38,500,000	08/06/2008	\$269	OAKHURST CENTER	GC	1	2	4.5% vacancy at sale with asking rate of \$26 NNN, center is occupied by high roster tenants paying below market rents - <b>not in specialty bldgs under 100,000 rsf each</b>

Verification Code # 2 indicates a market sale



**SOUTHEND SALES (Only 2008 & 2009 sales were used in the analysis)**

Area	Major	Minor	Total NRA	E #	Sale Price	Sale Date	SP / NRA	Property Name	Zone	Par. Ct.	Ver. Code	Remarks
280	334040	4000	201,448	2259309	\$28,844,360	01/04/07	\$143	VALLEY OFFICE PARK - Renton	CO	1	2	15% vac with \$19-\$21 FS asking rates at time of sale, FAA occupies 80,000, buyer/user is Providence Health System
280	334040	4003 4004 4006	193,118	2307562	\$36,000,000	08/27/07	\$186	1601 LIND / FAA REGIONAL HQ - Renton	CO	3	2	0% vac – 100% occupied by single tenant, sale includes daycare & parking parcels
280	332304	9001	532,430		\$79,250,000	12/28/07	\$149 imps only	SEATAC OFFICE CENTER – SeaTac	CB-C	1	2	Sale for imps only, 3 bldgs & pkg garage, 87% leased, larger tenants are Boeing, Port of Seattle, Mitsui, NW Airlines, FS asking rates of \$21 – 23 in N Tower & \$24 – 27 in S Tower, <i>sale does not include land</i>
55	215466	0010 0020	130,490	2315825	\$33,625,000	10/09/07	\$258	EAST CAMPUS CORPORATE PARK BLDGS A & B	OP-2	2	2	leased to Weyerhaeuser - through 12/2012 each with two 5-year options at mkt – not in 280 bldgs too small
280	222104	9006	103,500	2332938	\$23,729,000	02/14/08	\$230	EAST CAMPUS CORPORATE PARK VI - Federal Way	OP-1	1	2	0% vac with net asking rates of \$15 & \$7.36/sf expenses, buyer is adjacent owner World Vision & occupies 1/3 of bldg

Verification Code # 2 indicates a market sale



**SEATTLE SALES (Only 2008 & 2009 Sales were used in the analysis)**

Area	Major	Minor	Total NRA	E #	Sale Price	Sale Date	SP / NRA	Property Name	Zone	Par. Ct.	Ver. Code	Remarks
280	197720	0040	112,889	2273455	\$23,096,200	03/21/07	\$205	<b>BROADACRES BLDG.</b>	DMC 240/290	1	2	93% leased with \$22-\$25/sf FS asking rates at the time of sale, por of 4 bldg sale, price based on DCF,
280	093900	0335	295,515	2278251	\$80,600,000	04/17/07	\$273	<b>EXCHANGE BLDG.</b>	DMC 340/290	1	2	100% leased with \$30-\$34/sf FS asking rates at the time of sale, 96,000 sf will be available 3 months after sale
280	766620	2220	101,160	2290890	\$40,012,400	06/13/07	\$396	<b>101 ELLIOTT (SEATTLE PI BLDG.)</b>	IC-45	1	2	8% vac with FS asking rates of \$27 - \$29 at sale - \$34 + after sale, waterfront/unobstructed views
280	069600	0175	197,135	2294418	\$69,944,400	06/18/07	\$355	<b>FIFTH &amp; BELL</b>	DMR/C 240	1	2	16% vac with net asking rates of \$24.50 - 26.50/sf N & \$7.79/sf expenses as of sale
280	197720	0280	125,055	2301775	\$83,140,748	07/26/07	\$665	<b>MARKET PLACE I &amp; II</b>	PMM-85	1	2	6% vac with FS asking rates of \$35/sf - high parking income with excellent views adj Pike Place Mkt.
30	197720	0020	97,701	2302252	\$36,000,000	08/01/07	\$368	<b>FIRST &amp; STEWART</b>	DMC-125	1	2	12% vac with FS asking rates of \$34 - 36/sf, smaller than 100,000 SF - not in specialty
280	766620	2320	133,177	2302679	\$71,000,000	08/02/07	\$531	<b>WORLD TRADE CENTER NORTH</b>	DH2/65	1	2	0% vac with net asking rate of \$24/sf N, sale does not include pkg (Port of Seattle) leased by Real Networks who subleases
280	094200	0550	171,305	2307468	\$43,154,000	08/29/07	\$252	<b>CENTRAL BUILDING</b>	DOC1	1	2	6% vac with FS asking rates of \$22 - 26/sf at time of sale
280	197670	0185	310,633	2322103	\$115,830,000	11/29/07	\$373	<b>PARK PLACE</b>	DOC1	1	2	22% vac with FS asking rates of \$30 - 40/sf at sale
280	066000	1255	251,095	2325321	\$35,945,000	12/10/07	\$143	<b>1915 TERRY</b>	DMC-240	1	2	Vac but leased for 15yrs by Seattle's Children's Hospital Research Center which exercised option to purchase - to be renovated, portion of assemblage
280	094200	0590	129,000	2323228	\$33,995,000	12/05/07	\$264	<b>PACIFIC BUILDING</b>	DOC1	1	2	15% vac with FS asking rates of \$28 - 30 at time of sale, multi-million \$ renovation planned to make bldg competitive per buyer

Area	Major	Minor	Total NRA	E #	Sale Price	Sale Date	SP / NRA	Property Name	Zone	Par. Ct.	Ver. Code	Remarks
280	093900	0435	940,648	2279590	402,966,200	04/10/07	\$428	WELLS FARGO BUILDING	DOC 1	1	2	4% vac with FS asking rates of \$33 – 45 & \$11.31/sf expenses at time of sale- Part of bulk portfolio sale
280	094200	0050	554,945	2279597	240,000,000	04/10/07	\$432	1111 THIRD AVENUE BUILDING	DOC 1	1	2	4% vac with FS asking rates of \$25 – 33 & \$10.39/sf expenses at time of sale – Part of bulk portfolio sale
280	094200	0640	1,546,614	2279586	621,000,000	04/10/07	\$402	COLUMBIA CENTER	DOC 1	1	2	0.4% direct vac and FS asking rates of \$33 - \$50 & \$9.09/sf expenses as of sale date - Part of bulk portfolio sale
280	094200	0030 0080	479,889	2279578	230,000,000	04/10/07	\$479	2 <sup>ND</sup> & SENECA & SDL BLDG.	DOC 1	2	2	3% vac with FS asking rates of \$28 – 34 & \$10.57/sf expenses as of sale date - Part of bulk portfolio sale
30	197570	0235	93,042	2341458	\$25,150,000	04/14/08	\$270	FOURTH & PIKE	DRC-85/150	1	2	Seattle CBD/retail core - 18% vac with FS asking rates of \$24-\$26, historic bldg will need \$3.2 m in renovations - <i>under office specialty size – not in 280</i>
10	292604	9277	81,924	2363492	\$19,590,000	09/16/08	\$239	NORTHWAY SQUARE EAST BUILDING	NC3-85	1	2	Northgate submarket - 11% vacancy, \$25-\$27/sf full-service asking rates at time of sale – <i>under office specialty size – not in 280</i>
30	197720	0920	79,140	2373654	\$16,330,000	12/10/08	\$206	TERMINAL SALES BUILDING	DMC-125	1	2	Seattle CBD – 96% leased at sale with asking rates of \$21.50 - \$22.50/sf – buyer plans LEED renovation – <i>under office specialty size – not in 280</i>
30	918450	0010 0020	902,854	2407592	\$115,000,000	09/08/09	\$127	WAMU CENTER (Chase to NW Mutual/ Russell Investments)	DOC 1 U/450	2	18 61	18= Quit Claim Deed, 61= Financial Institution Resale - Chase occupancy of building will drop from 100% occupied to 17% or 3 floors leaseback after sale - sale price the equivalent of cost to build a bldg for 250,000 sf for Russell Investment - sale is not a reliable indicator of value in that seller was not typically motivated (had little no basis in bldg acquired in WAMU takeover - did not need or want to convert to multi-tenant bldg)

Verification Code # 2 indicates a market sale

**MEDICAL OFFICE BUILDINGS (Only 2008 & 2009 Sales used in the analysis)**

Area	Major	Minor	Total NRA	E #	Sale Price	Sale Date	SP NRA /	Property Name	Zone	Par. Ct.	Ver. Code	Remarks
280	610845	0010 et al	98,782	2279596	\$40,000,000	04/10/07	\$405	<b>NORDSTROM MEDICAL TOWER</b>	MIO 200	10	2	5%vac with net asking rates of \$24 – 28 N & \$12.30 expenses, sale includes 10 MOB of various sizes, part of bulk portfolio sale
25	197820	1145	71,007	2334005	\$21,000,000	07/25/07	\$297	1001 BROADWAY	NC3 - 160	1	2	NOT IN SPECIALTY – too small, 7% vac at sale
280	610845	0010 et al	98,782	2297162	\$42,000,000	07/10/07	\$425	<b>NORDSTROM MEDICAL TOWER</b>	MIO 200	10	2	5% vac with net asking rates of \$21 – 31 N & \$12.30 expenses, buyer already owned pkg garage under tower, sale includes 10 medical office condos of various sizes

Verification Code # 2 indicates a market sale

### Improved Sales for Area 280 Not Used

Area	Major	Minor	Total NRA	E #	Sale Price	Sale Date	SP/ NRA	Property Name	Zone	Par. Ct.	Ver. Code	Remarks
280	069600	0175	197,135	2311955	\$2,533,334	09/05/07	\$12.85	5TH & BELL BUILDING	DMR/C 240/125	1	22	Partial interest (1/3, 1/2, etc.)
280	794260	0330	307,524	2281008	\$739,920	04/25/07	\$2.41	JAMES TOWER (PROVIDENCE MEDICAL	MIO-105 - L	1	22	Partial interest (1/3, 1/2, etc.)
280	093900	0080	109,572	2323474	\$38,700,000	12/06/07	\$353.19	ALASKA BLDG	PSM-100	1	57	Plans & permits included in sale
280	172505	9120	105,340	2322227	\$10,000	08/29/07	\$0.09	CARILLON POINT	PLA 15A	1	24	Easement or right-of-way
280	918450	0010 0020	902,854	2407592	\$115,000,000	09/08/09	\$127	RUSSELL INVESTMENT S BLDG	DOC U/450 1	2	61	61- Financial Institution Resale

### **Client and Intended Use of the Appraisal:**

*This mass appraisal report is intended for use only by the King County Assessor and other agencies or departments administering or confirming ad valorem property taxes. Use of this report by others is not intended by the appraiser. The use of this appraisal, analyses and conclusions is limited to the administration of ad valorem property taxes in accordance with Washington State law. As such it is written in concise form to minimize paperwork. The assessor intends that this report conform to the Uniform Standards of Professional Appraisal Practice (USPAP) requirements for a **mass appraisal report** as stated in USPAP SR 6-8. To fully understand this report the reader may need to refer to the Assessor's Property Record Files, Assessors Real Property Data Base, separate studies, Assessor's Procedures, Assessor's field maps, Revalue Plan and the statutes.*

*The purpose of this report is to explain and document the methods, data and analysis used in the revaluation of King County. King County is on a six year physical inspection cycle with annual statistical updates. The revaluation plan is approved by Washington State Department of Revenue. The Revaluation Plan is subject to their periodic review.*

### **Definition and date of value estimate:**

#### **Market Value**

*The basis of all assessments is the true and fair value of property. True and fair value means market value (Spokane etc. R. Company v. Spokane County, 75 Wash. 72 (1913); Mason County Overtaxed, Inc. v. Mason County, 62 Wn. 2d (1963); AGO 57-58, No. 2, 1/8/57; AGO 65-66, No. 65, 12/31/65). The true and fair value of a property in money for property tax valuation purposes is its "market value" or amount of money a buyer willing but not obligated to buy would pay for it to a seller willing but not obligated to sell. In arriving at a determination of such value, the assessing officer can consider only those factors which can within reason be said to affect the price in negotiations between a willing purchaser and a willing seller, and he must consider all of such factors. (AGO 65,66, No. 65, 12/31/65)*

*Retrospective market values are reported herein because the date of the report is subsequent to the effective date of valuation. The analysis reflects market conditions that existed on the effective date of appraisal.*

#### **Highest and Best Use**

**RCW 84.40.030** *All property shall be valued at one hundred percent of its true and fair value in money and assessed on the same basis unless specifically provided otherwise by law.*

*An assessment may not be determined by a method that assumes a land usage or highest and best use not permitted, for that property being appraised, under existing zoning or land use planning ordinances or statutes or other government restrictions.*

**WAC 458-07-030 (3) True and fair value -- Highest and best use.** *Unless specifically provided otherwise by statute, all property shall be valued on the basis of its highest and best use for assessment purposes. Highest and best use is the most profitable, likely use to which a property can be put. It is the use which will yield the highest return on the owner's investment. Any reasonable use to which the property may be put may be taken into consideration and if it is peculiarly adapted to some particular use, that fact may be taken into consideration. Uses that are within the realm of*

*possibility, but not reasonably probable of occurrence, shall not be considered in valuing property at its highest and best use.*

*If a property is particularly adapted to some particular use this fact may be taken into consideration in estimating the highest and best use. (Sammish Gun Club v. Skagit County, 118 Wash. 578 (1922)) The present use of the property may constitute its highest and best use. The appraiser shall, however, consider the uses to which similar property similarly located is being put. (Finch v. Grays Harbor County, 121 Wash. 486 (1922)) The fact that the owner of the property chooses to use it for less productive purposes than similar land is being used shall be ignored in the highest and best use estimate. (Sammish Gun Club v. Skagit County, 118 Wash. 578 (1922))*

*Where land has been classified or zoned as to its use, the county assessor may consider this fact, but he shall not be bound to such zoning in exercising his judgment as to the highest and best use of the property. (AGO 63-64, No. 107, 6/6/64)*

### **Date of Value Estimate**

*All property now existing, or that is hereafter created or brought into this state, shall be subject to assessment and taxation for state, county, and other taxing district purposes, upon equalized valuations thereof, fixed with reference thereto on the first day of January at twelve o'clock meridian in each year, excepting such as is exempted from taxation by law. [1961 c 15 §84.36.005]*

*The county assessor is authorized to place any property that is increased in value due to construction or alteration for which a building permit was issued, or should have been issued, under chapter 19.27, 19.27A, or 19.28 RCW or other laws providing for building permits on the assessment rolls for the purposes of tax levy up to August 31st of each year. The assessed valuation of the property shall be considered as of July 31st of that year. [1989 c 246 § 4]*

*Reference should be made to the property card or computer file as to when each property was valued. Sales consummating before and after the appraisal date may be used and are analyzed as to their indication of value at the date a valuation. If market conditions have changed then the appraisal will state a logical cutoff date after which no market date is used as an indicator of value.*

### **Property rights appraised:**

#### **Fee Simple**

***Wash Constitution Article 7 § 1 Taxation:*** *All taxes shall be uniform upon the same class of property within the territorial limits of the authority levying the tax and shall be levied and collected for public purposes only. The word "property" as used herein shall mean and include everything, whether tangible or intangible, subject to ownership. All real estate shall constitute one class.*

***Trimble v. Seattle, 231 U.S. 683, 689, 58 L. Ed. 435, 34 S. Ct. 218 (1914)*** *"the entire [fee] estate is to be assessed and taxed as a unit"*

***Folsom v. Spokane County, 111 Wn. 2d 256 (1988)*** *"the ultimate appraisal should endeavor to arrive at the fair market value of the property as if it were an unencumbered fee"*

*The definition of fee simple estate as taken from The Third Edition of The Dictionary of Real Estate Appraisal, published by the Appraisal Institute. "Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat."*



## **Assumptions and Limiting Conditions:**

1. *No opinion as to title is rendered. Data on ownership and legal description were obtained from public records. Title is assumed to be marketable and free and clear of all liens and encumbrances, easements and restrictions unless shown on maps or property record files. The property is appraised assuming it to be under responsible ownership and competent management and available for its highest and best use.*
2. *No engineering survey has been made by the appraiser. Except as specifically stated, data relative to size and area were taken from sources considered reliable, and no encroachment of real property improvements is assumed to exist.*
3. *No responsibility for hidden defects or conformity to specific governmental requirements, such as fire, building and safety, earthquake, or occupancy codes, can be assumed without provision of specific professional or governmental inspections.*
4. *Rental areas herein discussed have been calculated in accord with generally accepted industry standards.*
5. *The projections included in this report are utilized to assist in the valuation process and are based on current market conditions and anticipated short term supply demand factors. Therefore, the projections are subject to changes in future conditions that cannot be accurately predicted by the appraiser and could affect the future income or value projections.*
6. *The property is assumed uncontaminated unless the owner comes forward to the Assessor and provides other information.*
7. *The appraiser is not qualified to detect the existence of potentially hazardous material which may or may not be present on or near the property. The existence of such substances may have an effect on the value of the property. No consideration has been given in this analysis to any potential diminution in value should such hazardous materials be found (unless specifically noted). We urge the taxpayer to retain an expert in the field and submit data affecting value to the assessor.*
8. *No opinion is intended to be expressed for legal matters or that would require specialized investigation or knowledge beyond that ordinarily employed by real estate appraisers, although such matters may be discussed in the report.*
9. *Maps, plats and exhibits included herein are for illustration only, as an aid in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose.*
10. *The appraisal is the valuation of the fee simple interest. Unless shown on the Assessor's parcel maps, easements adversely affecting property value were not considered.*
11. *An attempt to segregate personal property from the real estate in this appraisal has been made.*
12. *Items which are considered to be "typical finish" and generally included in a real property transfer, but are legally considered leasehold improvements are included in the valuation unless otherwise noted.*
13. *The movable equipment and/or fixtures have not been appraised as part of the real estate. The identifiable permanently fixed equipment has been appraised in accordance with RCW 84.04.090 and WAC 458-12-010.*
14. *I have considered the effect of value of those anticipated public and private improvements of which I have common knowledge. I can make no special effort to contact the various jurisdictions to determine the extent of their public improvements.*
15. *Exterior inspections were made of all properties in the physical inspection areas (outlined in the body of the report) however; due to lack of access and time few received interior inspections.*

## **Scope of Work Performed:**

*Research and analyses performed are identified in the body of the revaluation report. The assessor has no access to title reports and other documents. Because of legal limitations we did not research such items as easements, restrictions, encumbrances, leases, reservations, covenants, contracts, declarations and special assessments. Disclosure of interior home features and, actual income and expenses by property owners is not a requirement by law therefore attempts to obtain and analyze this information are not always successful. The mass appraisal performed must be completed in the*

*time limits indicated in the Revaluation Plan and as budgeted. The scope of work performed and disclosure of research and analyses not performed are identified throughout the body of the report.*

## **CERTIFICATION:**

*I certify that, to the best of my knowledge and belief:*

- *The statements of fact contained in this report are true and correct*
- *The report analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and is my personal, impartial, and unbiased professional analyses, opinions, and conclusions.*
- *I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.*
- *I have no bias with respect to the property that is the subject of this report or to the parties involved.*
- *My engagement in this assignment was not contingent upon developing or reporting predetermined results.*
- *My compensation for completing this assignment is not contingent upon the development or reporting of predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.*
- *My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.*
- *The area(s) physically inspected for purposes of this revaluation are outlined in the body of this report.*
- *The individuals listed below were part of the “appraisal team” and provided significant real property appraisal assistance to the person signing this certification. Any services regarding the subject area performed by the appraiser within the prior three years, as an appraiser or in any other capacity is listed adjacent their name.*
- *Any services regarding the subject area performed by me within the prior three years, as an appraiser or in any other capacity is listed below:*
  1. *Physical inspection*
  2. *Appeal response preparation & appeal hearing appearances*
  3. *Market data collection*
  4. *Sales Verification*
  5. *new construction data collection & valuation*